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1994/08/00

EVENT SCENARIO

Event: Breakfast with Minister of Electric Power Shi Dazhen and Top Ministry Leadership

Date: Tuesday, August 30, 1994

Time: 8:00-9:30 a.m.

Location: China World Hotel,
Ballroom A

Participants: Secretary Brown
Stein
Governor Caperton
Garten
Rothkopf
Yang
Haley
Thompson
Hendryx

CEOs of:

ARCO
SCE
Entergy
Fluor
Westinghouse Electric
Systems Integrated
Wing (join in country)
Foster Wheeler

Minister Shi Dazhen
Mr. Tan Aixing, Director of International Cooperation.
Energy company CEO's to be determined - probably six total

SCO Hendryx
Comoff Brazil
Commercial Assistant Liu Bo

Objective: Sign Power subgroup agreement; observe the signing of contracts or other agreements on power between US firms and Chinese customers, i.e., contract with Energy, Westinghouse and Wing.

Deliverables: At the end of the meeting, the Secretary will observe the signing of Entergy Corp.'s \$1.2 billion (\$465 million in U.S. content) joint venture agreement with North China Power Group. Other possible

signings may include the following by Westinghouse: signing of a \$220 million letter of intent for the Ligang Power project and the signing of a \$60 million contract for the Long Wei Power project. {NOTE: The Westinghouse signings may occur at a different event scheduled by Westinghouse on Monday, August 29 at 5:30 p.m. in the Great Hall of the People, Beijing.}

- Advocacy:** The Secretary will want to use this opportunity to advocate on major power projects in which U.S. companies are vying for contracts, such as Zhuhai, Shanwei, Yangcheng, Shenzhen East, Nanhai, Yele, Behai, Dengfeng, Dadong, Dalian, and Zhangze. An advocacy letter supporting these projects signed by the Secretary should be handed to the Minister during the meeting. A discussion on the projects on which the Secretary should advocate during this meeting is attached as a non-paper.
- Overview:** The Ministry is staffing the final version of the terms of reference for the working group, and we expect closure within a week. Business signings may include contracts or other agreements as follows: The Wing Group (Dengfeng), Voith (Yele), General Electric (Zhabei), Entergy (Datong, Taishan).
- Press Plan:** Press pool for signing.
- Gifts:** TBD.

BACKGROUND

Meeting with Minister of Electric Power

Issue

The JCCT Power Technologies Subgroup was established to find joint solutions to problems arising from the rapid growth of the electric power program in China, develop ways to assist in the exchange of technology, and work out a mutually beneficial trade development program. The Chinese interest in private power investment has created additional legal and political problems for U.S. firms interested in building private power plants.

Background

China has the world's fastest growing electric power industry, adding 23 million kilowatts of generating capacity over the past two years. Rapid economic growth is far outpacing energy expansion. Although electricity supply grew by 8 percent last year, industrial output jumped by more than 20 percent. Indeed, Chinese media last year began admitting that electricity output falls short of demand by 20-30 percent annually. Official statements show that Beijing and local-level officials are planning to add 135 million kilowatts of generating capacity to China's existing 163 million kilowatts between 1993 and 2000 and are allocating \$40-45 billion to the effort.

U.S. firms face multiple challenges in expanding their share of China's burgeoning electricity power and transmission equipment market. Government-backed financial aid and advanced technical skills will almost certainly enable Japanese firms to maintain their dominance of China's market for equipment—Japanese goods account for 65 percent of such imports, versus the United States' 15 percent share—despite a Chinese perception that Japanese firms engage in price-gouging on parts and other sales services. Indeed, an emerging theme in China's entire infrastructure expansion program—including transportation and telecommunications—is that, despite the technological merits of a particular round of bids, the foreign firm offering the best concessionary terms will win. Guangzhou officials have publicly warned U.S. businessmen that their inability to provide soft loans may disqualify them from that province's 20-year, \$80 billion power generation expansion program.

JCCT Subgroup on Power Technologies

The Energy Technologies Subgroup formed in April 1994 is chaired jointly by the Department of Commerce and the Department of Energy (DOE). During the first meeting last April, there was agreement that there would be an emphasis on information exchanges, trade events (e.g., trade missions, reverse missions, seminars, conferences, etc.), technical assistance (including the formation of a Private Sector Advisory Group), and the exploration of obstacles to trade in the energy sector. Due to the number of Chinese entities involved in the energy sector, and the reluctance of any one to assume a lead role, U.S. and Chinese officials have agreed to sign separate protocols with the concerned entities. This subgroup on power technologies will be the first effort in this regard.

TALKING POINTS

Meeting with Minister of Electric Power

- o THE ELECTRIC POWER SECTOR IS ONE OF GREAT IMPORTANCE TO YOUR MODERNIZATION EFFORT AND THE UNITED STATES IS HOPING TO PLAY AN IMPORTANT ROLE IN ITS EXPANSION.
- o I AM PLEASED AT THE PROGRESS THAT HAS BEEN MADE IN DEVELOPING A WORK PLAN FOR COOPERATION IN THE ELECTRIC POWER SECTOR.
- o I NOTE THAT THERE HAS BEEN A VISIT OF YOUR OFFICIALS IN THE FIELD OF HYDROPOWER TO THE UNITED STATES, AS WELL AS ELECTRIC POWER INDUSTRY OFFICIALS FROM SEVERAL PROVINCES WHO ATTENDED THE POWER GEN 1994 EXHIBITION.
- o THE DEPARTMENTS OF COMMERCE AND ENERGY ARE PLANNING OTHER EVENTS, SUCH AS TRADE MISSIONS IN ELECTRIC POWER SERVICES, COAL PREPARATION, ELECTRIC POWER ENVIRONMENTAL SERVICES, AND OTHERS.
- o I LOOK FORWARD TO FOLLOWING THE PROGRESS MADE BY THIS COMMITTEE IN THE FUTURE.

TALKING POINTS
Energy Technologies Subgroup

- o THE ELECTRIC POWER SECTOR IS ONE OF GREAT IMPORTANCE TO YOUR MODERNIZATION EFFORT AND THE UNITED STATES IS HOPING TO PLAY AN IMPORTANT ROLE IN ITS EXPANSION.
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- o I LOOK FORWARD TO FOLLOWING THE PROGRESS MADE BY THIS COMMITTEE IN THE FUTURE.

DATONG PROJECT

- o IT GIVES ME GREAT PLEASURE TO WITNESS THIS SIGNING CEREMONY BETWEEN ENTERGY CORPORATION AND NORTH POWER CHINA GROUP, BOTH OF WHOM MUST BE RECOGNIZED FOR THE TREMENDOUS ACCOMPLISHMENTS THEY HAVE MADE WITH THIS AGREEMENT.
- o SUCCESS LIKE THIS PROVIDES THE RESULTS WE NEED IN THE U.S. GOVERNMENT TO BUILD THE U.S./CHINA ECONOMIC PARTNERSHIPS WE ALL WANT. THIS AGREEMENT IS A WIN-WIN FOR BOTH ECONOMIES.
- o THE BENEFITS FROM THE DEVELOPMENT OF THE DATONG POWER PLANT PROJECT WILL ALSO EXTEND TO THE U.S. SUPPLIERS SUPPORTING ENTERGY.
- o WE LOOK FORWARD TO WITNESSING THE SUCCESSFUL BENEFITS THAT ARE GENERATED FROM THIS AGREEMENT IN THE YEARS TO COME.